Intelligent Clean Room

The key to faster value and synergy capture from mergers and acquisitions

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Over the past 10 years, Accenture has helped clients with more than 980 mergers and acquisitions of diverse sizes and complexity. One of the biggest changes we’ve seen over that period is the increasing demand for Clean Rooms, and especially Intelligent Clean Rooms, as a means to speed up value capture and increase the size of expected synergies.

And we’ve seen this change across almost all industries and deal sizes. Accenture has helped our merger and acquisition (M&A) clients set up and operate Intelligent Clean Rooms in industries as diverse as oil & gas, media & entertainment, hospitality, banking, distribution, telecom, and consumer products for deal sizes ranging from significantly under USD$1 billion to deals over USD$60 billion.

For example, in August 2008, the four-year-old Belgium-based InBev NV purchased all the outstanding shares of the 152-year-old American icon Anheuser-Busch for USD$60 billion. Just five months later—nearly 30 percent faster than the average time needed to close deals of this size—the newly merged AB InBev was able to begin implementing strategic changes in its now-combined procurement operations, ultimately realizing over $700 million in synergy savings in the first two years.

Use of an Intelligent Clean Room was key to these savings: Rather than treat the time between when the deal is announced and when it closes as useful only for high-level team building and integration road-mapping, the two companies had Accenture analyze their procurement operations and create detailed implementation plans. Because it was a “Clean Room,” the planning was completed while still allowing the companies to remain in full compliance with US Department of Justice rules governing M&As. And because it was “Intelligent”—involving procurement experts, not just financial analysts—the plans were ready to implement on Day One.
What is an Intelligent Clean Room?

Over the past few years, more and more businesses have been using **Clean Rooms** as a way to bring together data from all parties prior to the close of the deal. The term “Clean Room” is used to represent the physical or virtual repository of the data; the term “Clean Team” is the work group that is using the data. Typically, the team is made up of business partners who have access to all the data in ways that are fully compliant with the requirements of the Hart-Scott-Rodino Act of 1976 (which spells out antitrust regulations).

The traditional pre-announcement Clean Room—often called a **Data Room**—does nothing to speed implementation timing, reduce risks associated with delays, or identify opportunities for greater synergies. It is almost exclusively used as a repository of raw data, a library used by acquirers to gather due diligence information. Often the Data Room is merely a way for a company that is for sale (especially in an auction) to reduce the interruptions required to gather data for multiple bidders. At best, these traditional Data Rooms lead to better bids and more accurate deal valuations. At worst, they may actually hide many of the true obstacles to synergy capture.

Thinking about the Clean Room in a new way, however, allows either a buyer or seller to take advantage of the time before closing to create real, measurable value. Rather than limiting the Clean Room to a simple collection of raw data, it can be considered as opportunity to validate synergy expectations and initiate merger integration planning well before the deal is finalized. That’s the essence of the **Intelligent Clean Room** concept. It is one of the most powerful mechanisms that businesses have to jump start synergy capture.

An Intelligent Clean Room is staffed by **independent third-party advisors** who can perform the same kinds of detailed analyses as internal people would perform if the deal had already closed, not just by the kind of due diligence advisors found in traditional Clean Rooms or Data Rooms.

In addition, use of third party advisors in an Intelligent Clean Room eliminates the actual or perceived risk of anticompetitive behavior that precludes direct sharing of information between the companies involved in a merger or acquisition. With proper precautions in place—such as having signed non-disclosure agreements and use of strict standards and processes—third-party advisors can gather and examine sensitive or competitive data on costs, customers, employees, etc., from both parties that could otherwise not be shared. Seeing information from all parties means the advisors can do a much more thorough analysis than could otherwise be conducted.
1. Synergy identification and validation

One of the main benefits companies seek through M&As is the ability to consolidate operations while serving a broader customer base. Validating those potential synergies prior to closure of the deal is nearly impossible with traditional Clean Rooms because confidential information cannot be shared between internal staff from the two parties. In contrast, the independent advisors in an Intelligent Clean Room can look at information from both sides in a merger and find areas of overlap that would be prime candidates for consolidation. In a $1.5B bank merger we worked on, for example, 87 percent of the synergy capture (well over $100 million) was connected directly to the analysis done in the Intelligent Clean Room.

2. Speed of value capture

When mergers or acquisitions occur without an Intelligent Clean Room, much of the merger integration planning that happens before the deal closes must be based on assumptions rather than data. When the deal is finalized and the companies begin sharing their data and organizational information, they often realize that the plans are incomplete or inaccurate. They have to spend much of the key post-merger window revising their integration plans rather than implementing synergy projects to achieve value.

In contrast, an independent Intelligent Clean Room team can complete the needed planning ahead of time, such as:

- Conducting ad hoc and systematic analysis of the operational and financial impacts of the transaction
- Identifying the steps in analysis and integration that will happen after the transaction closes
- Developing detailed integration plans

Since the plans will be in place the day the deal closes, the merged company can immediately begin implementing the synergy projects needed to realize the value it is seeking.
Many factors will determine how much value the Intelligent Clean Room delivers and how quickly. Here are two that we’ve found most critical:

**Key ingredient #1: The right expertise**

The value delivered by an Intelligent Clean Room depends largely on the type of “intelligence” represented. The people you choose to run your Intelligent Clean Room should not only know how to manage data and information effectively but must also be familiar with the opportunities and requirements of your industry and business. We think of this as having the right combination of both strategic and functional expertise. The value captured in the AB InBev merger, for example, was greatly dependent on how much duplication could be eliminated from the supply chain—and therefore the Intelligent Clean Room staff needed to include people with deep supply chain expertise.

When evaluating firms as potential operators of an Intelligent Clean Room, look for:

- Ability to organize and integrate complex processes in a short period of time using basic technologies and facilities
- Deep knowledge of your business sector
- Subject matter specialists, especially in areas targeted for synergy capture, including cross-industry benchmarks and current leading practices
- Sound business judgment regarding value priorities, regulatory and legal pressures, cultural sensitivity and executive presence

Furthermore, make sure that your third-party advisors are able to prioritize post-merger synergy opportunities based on the value they create, not just the speed at which you will achieve full integration. You want them to help you prioritize post-merger activities according to the value of the synergies they create, the time and cost needed to implement, and the risk involved in implementing (or even ignoring) the synergy. For example, if the greatest value in a merger is cross-selling opportunities to the new base of common customers, you would want your advisors to help you identify the activities that will ensure the most rapid transfer of customer information and development of integrated account plans. Lower-value activities not related to cross-selling would be postponed until later in the integration process.

**Key ingredient #2: Speed of ramp-up and ramp-down**

Much of the potential speed advantage you gain from having an Intelligent Clean Room can be lost if it takes too long to set it up or take it down. For example, if you are targeting to close a merger or acquisition in just a few months, you can easily lose much of the time in mobilization if it takes six weeks to get the Intelligent Clean Room up and running.

To avoid losing the speed advantage, match the size and format of the Intelligent Clean Room to the breadth and scale of the synergy opportunities that must be validated and planned, and get the Clean Room’s governance and information-sharing protocols agreed to up-front to make its set up and operation efficient, as discussed in the next section.
Intelligent Clean Room Models

Depending on factors such as the size of the deal and the regulatory environment, an Intelligent Clean Room can be either a virtual or actual space, and involve just a few people or multiple teams. As shown in the figure, there are different classes of Clean Rooms that can be considered, depending on the desired level of security.

Following are four examples where clean room models were adapted to fit specific situations:

**Example 1**

When the analysis required by a third party advisor is limited—focused on a fairly narrow question, for example—a Class 1 "Open" Intelligent Clean Room can be implemented that focuses specifically on data management. In fact, such operations may consist of a single data repository (on a shared website, for example) that is controlled by the third party. A company involved in the deal can upload its own information but not see the data from the other company. Accenture ran this type of limited Intelligent Clean Room for a $2.6B deal involving two consumer products companies whose primary interest was to use data gathered from a recently administered cultural assessment as input for the integration planning.

**Example 2**

As the demands on an Intelligent Clean Room increase and more pre-close analysis and planning are desired, companies can shift from having a virtual space to creating a physical space. A Class 3 “Flexible” Intelligent Clean Room is typically constructed at a neutral site and staffed by the third-party advisors. In a recent $1.5B bank merger, Accenture assisted our client in creating a single Intelligent Clean Room location where several of our team accessed data from both banks to develop post-acquisition plans across 12 areas: integration management, implementation, retail/small business, consumer/small business credit, commercial credit, lending services, treasury management, deposit/payments, technology, customer data, finance, and organizational readiness.

**Example 3**

When a merger or acquisition gets much bigger and/or is subject to close scrutiny by multiple public/regulatory agencies, then the structure should be based on the Class 5 “Restrictive” model. In some cases, the Intelligent Clean Room will occupy multiple physical locations, each operated by different groups. For example, Accenture was involved in the merger of two large petrochemical companies. We created the overall structure of the Intelligent Clean Room and ran two of the six "subrooms" that focused on specific functional or business unit value creation opportunities (ours focused on supply chain merger and commodity logistics). Other third party service providers established and operated four additional subrooms in separate locations, using the protocols we established.
Security measures in this case were moderate: Intelligent Clean Room staff were allowed to use their own laptops, email accounts, and cell phones.

Example 4

The Class 5 “Restrictive” Model can become even more controlled for highly scrutinized mergers in which security is paramount, such as in the large telecoms mergers of the last decade. Accenture has worked with clients to mobilize offsite Intelligent Clean Rooms in physically monitored and controlled locations. In these instances, staff assigned to the Intelligent Clean Rooms could not bring in any of their own electronic equipment, including laptops, flash drives, or cell phones. All analysis was conducted on new desktop computers that were installed in the Intelligent Clean Room specifically for that purpose. Internet access was cut off and banned: the only way for information to enter or leave the Clean Room was in hard copy form or on ROM devices, and all information entering or leaving the Clean Room was logged by a “librarian.” Entry and exit of the facility followed a documented procedure that included controlled electronic access with a secure identification badge, and guards were posted 24x7 to monitor the comings and goings of Clean Room personnel and to inspect the contents of their purses and briefcases.
Representatives from the companies involved in a merger or acquisition can be included as staff for a Clean Room, but there are some limitations.

Staff from the merging companies can be involved only if the person or people are removed from their regular “day job” and spend 100 percent of their time on Intelligent Clean Room work. They cannot go back to their day job until after the deal is completed, to eliminate all risk of having the knowledge they gain from the other side to contaminate what they do on a daily basis.

However, if the deal falls through, the company may have a difficult choice for these in-house staff: either dismiss them from the company or, with regulatory approval, assign them to a completely different function or business within the organization. Again, the intent is to make sure that the organization cannot capitalize on the information that was obtained from the other merging company.

Of course, having to dismiss or move staff is very costly to any organization. To minimize the risks of assigning in-house staff to an Intelligent Clean Room, assign only a handful of staff at most, with 100 percent of their time devoted to the Clean Room.
Get the Governance and Information-Sharing Protocols Right

Setting up an Intelligent Clean Room takes time. There’s a lot that has to happen quickly:

- Getting each company to agree to a need for an Intelligent Clean Room
- Getting Non-disclosure agreements (NDAs) signed
- Agreeing on what “Class” of Intelligent Clean Room and how many subrooms are needed
- Getting counsel for each company to agree to what data can be collected and analyzed, in addition to what summary findings can be shared—plus deciding on what protocol must be followed for data collection, analysis and the sharing of findings

With so much investment required up front, it’s no wonder many deals, especially smaller deals, decide to forego an Intelligent Clean Room. This decision, however, should not be made in haste. Rather than putting one’s company in jeopardy of antitrust or other legal/regulatory violations, the better business decision may be to work with trusted external advisors who may be able to speed up the process and provide more value by shortening the overall integration window.

For example, using a “Clean Room Playbook,” Accenture clients have been able to quickly identify what class of clean room they needed and what categories of data would be shared. They can also quickly document how counsel, the merger integration’s program office, and the integration teams would interact to request, approve, and collect data for Clean Room analyses. Likewise, they defined the documentation requirements that would be in place should the Clean Room be audited by a regulatory agency.
We’ve found that companies involved in mergers that are perceived as “small” or “simple” are tempted to dismiss the idea of using an Intelligent Clean Room. Some think that the value delivered by an Intelligent Clean Room will not be worth the time, effort, or costs; others simply want to dive into full-scale planning before the deal has closed even though that could violate anti-trust laws.

Companies that do not proactively protect their proprietary information through a mechanism such as a Clean Room may run a greater risk of the perception that one party has coerced or influenced the other’s business before the deal is completed. There are two types of pre-merger cooperation that can put you at risk of violating anti-trust laws: (1) Jumping the gun, meaning the parties act as if they had already merged before the merger has been cleared by regulatory authorities and (2) Pre-merger coordination, such as price-setting and customer/market allocation between competitors that are about to merge.

Also, without an Intelligent Clean Room, the merging companies may not be able to complete their integration planning until after the deal has closed...which delays the impact of benefits.

Lastly, having an Intelligent Clean Room sends a strong signal of respect for each other’s expertise and sensitive information. Neither company will be in a position of simply demanding to see the other company’s data. Instead, both sides are in the same position of submitting proprietary or competitive data to a neutral third party.

Using an approach like Accenture's Clean Room Playbook, even deals that are significantly under $1B and are expected to close quickly (within 3 to 4 months of the announcement) become promising candidates to benefit from an Intelligent Clean Room. With proven tools like sample NDAs, governance structures, information flows, and data collection templates, Class 1-3 Clean Rooms can be operational in days.
What If the Deal Falls Through?

If the deal falls through or is not approved, the Intelligent Clean Room is simply closed. All data are destroyed or returned to the respective companies, depending on what confidentiality processes were established. The companies are then assured that they did not give any actual or potential competitor any sensitive information. If staffing of the clean room involved only third-party advisors, the advising company’s resources can simply return to their positions in their respective companies.

Closing down a Clean Room when in-house staff were involved in more complicated because none of the parties that were involved in the deal can benefit from the competitor’s information those staff may have seen. That means those in-house Clean Room staff may have to be dismissed or moved into a new job within their companies.

In short, the Intelligent Clean Room process gives both companies in a merger or acquisition the best of both worlds. They minimize the risk of a broken deal by keeping critical data under strict control. When a deal is closed, however, they can capture enormous value with an accelerated integration process, fewer lost customers and additional synergies.
Conclusion

The cost of a merger done badly can be enormous. A one percent loss in return on investment can lead to hundreds of millions of dollars in lost shareholder value. Yet although M&A transactions are hardly new to most companies—and most have both M&A and post-merger experience—many still have problems capturing value.

Intelligent Clean Rooms are a mechanism for achieving the maximum value from a merger or acquisition, much faster than traditional approaches allow. With an Intelligent Clean Room, independent advisors can develop detailed plans for blending operations and culture before the deal is finalized. This can shave months off the integration timeline, and identify additional synergies not originally contemplated.
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